GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:3278
ANSWERED ON:07.12.2007
ITEMS UNDER VAT
Reddy Shri Karunakara G.

Will the Minister of FINANCE be pleased to state:

(a) whether Government has any proposal to put items of petroleum and natural gas under the VAT;

(b) if so, the details thereof;

(c) whether Government had discussed the issue with States/Union Territories;

(d) if so, the response received from them;

(e) if not, the reasons therefor; and

(f) the present items under the VAT in each State/Union Territory?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE(SHRI S.S. PALANIMANICKAM)

(a) to (e) : The State Governments have been levying tax on sale or purchase of petroleum products and natural gas within a State, by virtue of Entry 54 of State List of the Seventh Schedule of the Constitution. An Empowered Committee of State Finance Ministers (EC) has been constituted to deliberate, inter-alia, upon matters concerning Sales Tax and to make recommendations to the States in matters concerning Sales Tax/VAT. As per the EC recommendations, Petrol, Diesel, Aviation Turbine Fuel (ATF) and other motor spirits are subject to 20% tax as a floor rate and have been kept outside VAT. Natural gas is already included in VAT and has been put in the category of 12.5% rate (i.e. the general VAT rate). Since Sales Tax/VAT is a State subject, any change in the current taxation regime can be effected by the State Governments alone. As of now, the EC or the State Governments have not taken any decision to bring petroleum products under VAT.

(f) As per the agreement at EC of State Finance Ministers, in general, all the goods, are covered under VAT; with the exception of only a few goods which are outside VAT viz., liquor, petrol, diesel, ATF and other motor spirit since their prices are not fully market determined. These continue to be taxed under the respective State Sales Tax Act or any other State Act or even by making special provisions in the VAT Act itself, and with uniform floor rates decided by the Empowered Committee. It may further be mentioned that for some of the goods under VAT in States, the tax rate is 0%. These are thus exempt from tax, although included under State VAT system.